

MINUTES

MONTANA SENATE 57th LEGISLATURE - REGULAR SESSION COMMITTEE ON TAXATION

Call to Order: By **CHAIRMAN BOB DEPRATU**, on January 25, 2001 at 8:00 A.M., in Room 405 Capitol.

ROLL CALL

Members Present:

Sen. Bob DePratu, Chairman (R)
Sen. Alvin Ellis Jr., Vice Chairman (R)
Sen. John C. Bohlinger (R)
Sen. Mack Cole (R)
Sen. Pete Ekegren (R)
Sen. Jon Ellingson (D)
Sen. Bill Glaser (R)
Sen. Dan Harrington (D)
Sen. Emily Stonington (D)

Members Excused: None.

Members Absent: None.

Staff Present: Lee Heiman, Legislative Branch
Deb Thompson, Committee Secretary

Please Note: These are summary minutes. Testimony and discussion are paraphrased and condensed.

Committee Business Summary:

Hearing(s) & Date(s) Posted: SENATE BILL 220, 2/2/2001;
SENATE BILL 127, 2/2/2001
Executive Action: SENATE BILL 240 as Amended
Passed Unanimously

HEARING ON SENATE BILL 220

Sponsor: SENATOR JOHN BOHLINGER, SD 7, Billings

Proponents: Betty Whiting, Montana Association of Churches; Sharon Hoff-Broadway, Montana Catholic Conference; Patrick Bik, MPA; Wendy Young, WEEL

Opponents: None

Opening Statement by Sponsor: SENATOR BOHLINGER presented SB 220. He described good tax policy being measured in terms of its fairness, how comprehensive it is, its neutrality, simplicity and accountability. Much of this Session would be focused on the state economy by creating an environment that would encourage the development of good paying jobs. He pointed out SB 200 last Session that reduced the tax on business equipment from 6% to 3% and eliminated the tax on the first \$5,000 of value on business equipment. Senate Bill 200 also dropped the tax on livestock to 3%. The bill provided for the elimination of this tax if wages grow at the rate of inflation plus 2.85%. He said he supported SB 200 because without it Montana would remain uncompetitive in an expanding economy. What major employer would come to Montana, invest in plans and equipment and pay a 3% premium for that opportunity to hire our people, especially when one considers our neighboring states have a tax that is considerably lower. Some of the critics of SB 200 thought that this was corporate welfare, that it was a give away of over \$200 million dollars in class A property taxes. SENATOR BOHLINGER stated that he thought of this tax reduction as necessary legislation to stimulate an investment climate in our state. SB 220, the Montana Earned Income Tax Credit, is another opportunity to stimulate our economy by allowing the working poor to keep more of the money they earn. It is a tax reduction and a way to supplement for low and moderate income families, because it allows the working poor to keep more of the money they earn. More money will be spent for food, clothing and shelter and thereby expand our economy. The Earned Income Tax Credit is a refundable tax credit for working families with lower income. This helps workers stay in the labor force and off of the federal program that provides temporary assistance to needy families by increasing the workers take home pay. The federal EITC is a tax credit for low and moderate income workers, primarily with children. It is designed to offset the burden of the 7.5% Social Security Payroll Tax. The EITC was enacted by Congress in 1975 as a means of tax relief and had become a central element of the federal effort to boost income for low income family earners and also lessen poverty among families with children. It has been described as a policy strategy to make work pay. President Reagan had called the EITC the best "anti-poverty, best pro-family, best job creation" measure that came out of Congress during his time as President. He described examples of wage earners that qualified for the

credit. **EXHIBIT**(tas20a01) {Tape : 1; Side : A; Approx. Time Counter : 0 - 7}

SENATOR BOHLINGER pointed out that even though the U.S. economy has been expanding, one in five American children still live in poverty. To provide further assistance for the working poor, 14 states have provided Earned Income Tax Credits. They provide refunds or credits that range from 4-26 1/2% of the federal credit. States EITC's have become a popular program because it is both good policy and good politics. It is a proven way to reduce poverty. The program puts the extra dollars directly into the pockets of the people who need it most.

Proponents' Testimony: Betty Whiting, representing various church organizations, spoke in favor of the bill. She described poverty at 16% for the state of Montana. She said she had a PhD and was making \$6 an hour. It is difficult for Montanans to earn adequate wages. This bill returns to families some of the taxes collected from them until they can get out of poverty.

Sharon Hoff-Broadway, Montana Catholic Conference, spoke in favor of the bill. **EXHIBIT**(tas20a02){Tape : 1; Side : A; Approx. Time Counter : 7 - 30}

Patrica Bik, representing Montana Peoples Action, spoke in favor of the bill. She believed the state EITC was the best use of tax dollars that would be investing in the families that need it the most. She pointed out it was unacceptable to push people off the welfare rolls and close our eyes to continued poverty.

Wendy Young, representing WEEL an organization for families living in poverty, those on the welfare roll, those who have moved off and those who float right in between. These are the people that are affected directly by this bill. She commented that there are people who work forty hours a week at \$6.00 an hour. They are bringing home \$950 a month before taxes. If they have rent that is \$400 a month and child care that is \$600 a month, they have already reached their max. This bill would allow these families to move over the poverty line. {Tape : 1; Side : B; Approx. Time Counter : 0 - 7.2}

Opponents' Testimony: None

Questions from Committee Members and Responses: SENATOR

STONINGTON commented that this was worthwhile legislation. She discussed the TANF money. **SENATOR BOHLINGER** said that Hank Hudson had said there was an opportunity to use about \$1.2 million dollars of TANF money to support this effort.

Closing by Sponsor: SENATOR BOHLINGER closed. He said this bill was about economic justice for all. Far too many Montanans are below the poverty line. The Earned Income Tax Credits can provide a vehicle for the working poor to receive a refund of those taxes that were taken from their paychecks for social security, approximately 7.5% of their paychecks, taken for a long term benefit. Some of these people need that money today. They can't wait. They have basic costs that they can't meet. **{Tape : 1; Side : B; Approx. Time Counter : 7.2 - 21}**

HEARING ON SENATE BILL 127

Sponsor: SENATOR JOHN BOHLINGER, SD 7, Billings

Opening Statement by Sponsor: SENATOR JOHN BOHLINGER presented the bill. He described the legislation as increasing the lodging facility tax. He said the 4% lodging tax has been good for Montana since it was first initiated. The bed tax, enacted in 1987, has produced \$10.77 million annually and is projected to grow to \$14.89 million by 2005. The funds are used in tourist related efforts, such as tourist promotion, regional convention center and visitors bureaus. He described other uses of the funds. He reported there was over nine million visitors to Montana and the average stay was 4.3 days. This bill would raise an additional 2% and return that additional money to the cities, towns or the counties where the money was collected. This would raise \$5.38 million statewide. He said this money would be a blessing to the state's cities, towns and counties and it was money collected without increasing mills or raising property taxes. According to the University of Montana's Institute for Tourism and Recreational Research most recent study, the average daily room rate in Montana is \$54.02 per night. A 2% increase will increase the cost of this room by \$1.08. The average room tax in the United States is 12%. By moving our bed tax from 4% to 6% we would still be half the national average. **{Tape : 1; Side : B; Approx. Time Counter : 21 - 30}**

SENATOR BOHLINGER pointed out that visiting tourists come with the full expectation of having police protection, fire protection, they want to drive on streets that are not filled with potholes and ruts, they want to recreate, etc. They do not pay for these services. This bill, with a dollar increase per night, they can share in those costs and return to cities funding for these purposes. **{Tape : 2; Side : A; Approx. Time Counter : 0 - 1.9}**

Proponents: Jani McCall, representing the city of Billings

Proponents' Testimony: Jani McCall, representing the city of Billings, described local government needs and service demands and increases seen in the future. She asked how tourists could be brought in without good roads, services, utilities and recreation. She read a portion of Dennis Taylor's fiscal notes. He noted dwindling resources and an ever increasing list of challenges and demands. {Tape : 2; Side : A; Approx. Time Counter : 1.9 - 7.1}

Opponents: Stuart Doggett, representing Montana Innkeepers Association; Amy Sullivan, representing Montana Tourism Coalition; Webb Brown, representing Montana Chamber of Commerce; Carl Sweitzer, representing the Bozeman and Kalispell Chambers; Riley Johnson, NFIB

Opponents' Testimony: Stuart Doggett, representing Montana Innkeepers Association, spoke against the bill. He said the bill failed to solve the long term problems facing local government. He felt the local options tax idea would be a better choice to provide financial support. This bill singled out one industry to solve the problem of local governments. He noted that the bed tax was developed as a vehicle to provide tourism funding. As a result, tourism is the fastest growing segment of our economy providing thirty thousand jobs in the state.

Amy Sullivan, representing Montana Tourism Coalition, spoke against the bill. She pointed out tourist pays 35% of the gas tax bill. Small communities support a local option tax or a more broad based approach. {Tape : 2; Side : A; Approx. Time Counter : 7.1 - 12.3}

Webb Brown, representing Montana Chamber of Commerce, spoke against the bill. He brought up problems they identified in the bill. The bed tax is paid by every one, Montanan's as well as visitors to this state. Business travelers who attend conventions or meetings around the state will be paying this as well. It is an additional tax burden for Montana, a tax increase with no relief. Visitors do already pay for services provided through the form of gasoline tax, gambling tax, as well as property tax generated through the facilities. In talking about competition from other states, remember a lot of conventions and activities that we are bidding on to bring into this state - we are not competing with Seattle or San Francisco or Washington D.C. We are competing with Boise, Rapid City and other states that do have lower rates, it is a factor. We are asking the tourism industry, specifically the hospitality industry, to bear the burden of an increased tax to provide funding for these other functions. He urged the committee oppose the bill. {Tape : 2; Side : A; Approx. Time Counter : 12.3 - 14.2}

Carl Sweitzer, representing the Bozeman and Kalispell Chambers, opposed the bill. The primary reason for the opposition was the selectivity of the tax.

Riley Johnson, NFIB, opposed the bill.

Questions from Committee Members and Responses: SENATOR

HARRINGTON asked **Webb Brown** about the shortage of firemen. He said this bill attempted to put some money back into cities. **Mr. Brown** replied that they sympathized with the plight of local governments and knew the difficulty of meeting budgets. Yes, they wanted to create the best experience possible for visitors but the objection is putting this burden on Montana taxpayers.

SENATOR HARRINGTON asked why there was such an opposition to the additional 2%. Across the country it is double or triple for a bed tax. **Mr. Doggett** replied the safety issue was important but the impact of tourism needed to be justified. If local governments are in need of that then the Local Options Sales Tax would be a better vehicle to provide a more comprehensive solution. Their group had been looking at a 1% increase in the bed tax for historic and cultural tourism and related items, keeping it more focused on tourism promotion which was the reason the bed tax passed. *{Tape : 2; Side : A; Approx. Time Counter : 14.2 - 22.8}*

Closing by Sponsor: **SENATOR BOHLINGER** closed. He pointed out the bill was not intended to solve all long term problems.

EXECUTIVE ACTION ON SENATE BILL 240

SENATOR GLASER MOVED the McNutt Amendment. **EXHIBIT**(tas20a03) The motion **PASSED** unanimously. **SENATOR GLASER MOVED** the bill as amended. The motion **PASSED** unanimously.

ADJOURNMENT

Adjournment: 9:35 A.M.

SEN. BOB DEPRATU, Chairman

DEB THOMPSON, Secretary

BD/DT

EXHIBIT (tas20aad)